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Affifuddin: Some banks have cut interest rate spread

Sreerema Banoo

DEPUTY Finance Minister Datuk Dr Affifuddin Omar said some banks have reduced their interest rate spread to 2 per cent above the base lending rate (BLR).

Speaking to reporters after the officiation of Malaysian Institute of Economic Research (Mier) 13th National Economic briefing in Kuala Lumpur yesterday, he said the Government's strategy has always been to maintain appropriate levels of interest rates.

He was asked to comment on Prime Minister Datuk Seri Dr Mahathir Mohamad's statement in Parliament yesterday that the Government will ensure that the interest rates are kept at the current level or lower.

Affifuddin said Malaysia's strategy is different from a pure capitalistic strategy where the private sector has to survive on its own.

"We are trying to help the private sector as the Prime Minister has been saying all the time ... so appropriate interest rate would help the private sector to revitalise themselves.

"That is why the Prime Minister is saying that we have to do whatever is possible to maintain the appropriate interest rate level by asking banks to reduce their spread," he said.

Bank Negara, he added caps the interest rate spread at 4 per cent above the BLR.

"I was given the information that most banks are now taking only 2 per cent (spread).

"We hope that the BLR can be lowered by increasing efficiency of banks," Affifuddin said.

He added that with the lowering of the statutory reserve requirement (SRR) to 8 per cent from the previous 10 per cent, RM8 billion has been released into market, thereby increasing liquidity in the market.

Meanwhile, Mier executive director Dr Mohamed Ariff said the interest rates spread taken by Malaysian banks are higher than banks in the US or Europe.

In good times, banks were allowed to have a bigger spread but with the economic problems, it is time to make adjustments, he said.

He told reporters that interbank rates "cannot go any further down". Monetary policy, he added is already too tight and to "tighten it further will not be in our interest".

On another development, Affifuddin said further measures to be taken to boost the economy will depend on the effectiveness of measures already announced.

"Of course, there will be measures ... (but) so far measures taken have yet to see an impact," he said.

He added that if there was no impact then more measures will be introduced.

To date the Government has announced the setting up of Pengurusan Danaharta Nasional Bhd to relieve the banking sector of the pressure of non-performing loans; the RM5 billion Infrastructure Development Fund; and the RM7 billion fund for social and economic projects.

He was however unable to give details on the sources of financing for the funds.

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